

CHAIRMAN'S STATEMENT

Overview

Government funding to public institutions remained very low and this constrained public sector demand which usually constitutes more than 80% of the factory sales. Although there were no major policies introduced, interest rates remained high and lending remained short term.

As the main factory remained closed during the first quarter whilst overheads accumulated, no products were supplied to foreign operations resulting in a Group trading loss of US\$742,048 against a turnover of US\$5,997,511. The other major contributor to the loss position was the involuntary salary adjustments that were imposed on the Group by collective bargaining agreements of trade unions, the hospital business and the factory being the worst affected. However the current figures are expected to stabilize throughout the second half of the year.

SEGMENTAL OVERVIEW

Manufacturing

The inspection of the main factory started in February 2010. The factory passed the inspection in March 2010 and subsequently resumed production. A wide range of CAPS Pharmaceuticals products was produced and remained available throughout the second quarter of the year.

Distribution

The recall of CAPS products from wholesalers following the closure of the main factory resulted in Geddes Limited operating below the expected capacity and the growth potential was compromised. The Galenical and Essential range of products will be reintroduced in the third quarter.

Retail

QV Pharmacies recorded a steady growth in turnover on a monthly basis. The product mix improved and was complemented by some imported products. Medical aid drug access schemes continued to strengthen turnover on a monthly basis.

Hospital

St Anne's Hospital continued to post commendable results. Turnover and profits grew on a monthly basis. The reintroduction of medical aid schemes continued to impact positively on revenue and profit however staff costs eroded the overall potential profit growth of the entity. These were largely driven by the market trends that continue to exert pressure as a result of skills shortages.

Foreign Operations

The order books for the South African and Botswana markets remained unfulfilled until the end of June 2010, although significant deliveries were made to the market. There is still a lot of untapped potential in both of these markets. The revenue in QV Beira remained depressed as a result of working capital constraints.

Future Prospects

As the local business environment continues to improve, the Group will seek to maximise returns in line with rising disposable incomes in the market. The Group will continue to seek to diversify by spreading its operations into the Region.

Appreciation

I would like to thank the board, management and staff for their hard work and commitment during the first half of the year.

Dividend

The directors have resolved that no dividend will be declared given the difficult trading environment and the need to conserve cash and strengthen operations.

F. Mtandah

Executive Chairman

09 September 2010

Accounting policies

Basis of Preparation

The consolidated financial statements of CAPS Holdings Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the Companies Act (Chapter 24:03) and the requirements of the Zimbabwe Stock Exchange. These accounts have been prepared in United States Dollars which is the Group's functional and presentation currency.

The financial statements have been prepared under the historical cost convention following the adoption of more stable currencies.

Comparatives

Comparative financial information for the half year ended 30 June 2009 have been restated due to the change in the amortisation charge of intangible assets following the review of the Directors valuation of intangibles by the external auditors as at 31 December 2009.

	UNAUDITED 30-Jun-10	AUDITED 31-Dec-09	UNAUDITED 30-Jun-09 (Restated)
	US\$	US\$	US\$
Group statement of comprehensive income			
Turnover	5,997,511	10,837,865	4,887,848
(Loss)/ Profit before amortisation and depreciation interest and taxation and investment income	(94,934)	(263,377)	1,090,224
Net interest payable	(117,203)	(150,225)	(646)
Investment income	-	(4,429)	(323)
Depreciation	(457,887)	(819,836)	(409,918)
Amortisation of intangible assets	(148,034)	(440,170)	(220,085)
(Loss) / Profit before taxation	(742,048)	(1,678,037)	459,252
Taxation	153,195	724,044	184,351
(Loss)/ Profit for the year	(588,853)	(953,993)	643,603
OTHER COMPREHENSIVE INCOME			
Currency translation differences	(1,138,158)	1,182,569	(732,176)
Total comprehensive (loss) / profit	(1,727,011)	228,576	(88,573)
(Loss) / Profit for the year attributable to			
Equity holders of the parent	(471,456)	(758,526)	389,501
Minority interests	(117,397)	(195,467)	254,102
Total comprehensive (loss) / profit attributable to	(588,853)	(953,993)	643,603
Equity holders of the parent	(1,609,614)	424,043	(342,675)
Minority interests	(117,397)	(195,467)	254,102
Total comprehensive (loss) / profit	(1,727,011)	228,576	(88,573)
Loss per share			
Basic loss per share (cents)	(0.19)	(0.17)	(0.14)
Diluted loss per share (cents)	(0.19)	(0.17)	(0.14)

	UNAUDITED 30-Jun-10	AUDITED 31-Dec-09	UNAUDITED 30-Jun-09 (Restated)
	US\$	US\$	US\$
Group statement of financial position			
ASSETS			
Non-current assets	29,976,370	29,308,511	29,938,514
Current assets	5,716,754	6,491,058	5,469,868
Total assets	35,693,124	35,799,569	35,408,382
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	15,562,463	17,194,296	17,540,207
Minority interests	5,453,078	5,627,458	5,997,824
Total equity	21,015,541	22,821,754	23,538,031
Non-current liabilities	9,556,401	9,547,336	9,688,149
Current liabilities	5,121,181	3,509,680	2,182,202
Total equity and liabilities	35,693,124	35,878,770	35,408,382

	30-Jun-10	31-Dec-09	30-Jun-09
	US\$	US\$	US\$
Group statement of cash flows			
Net cash (used in) / generated from operating activities	(146,428)	(725,395)	1,466,528
Net cash used in investing activities	(1,247,205)	(466,169)	(385,880)
Net cash generated from financing activities	1,427,533	1,374,875	285,878
Net increase in cash and cash equivalents for the period	33,900	183,311	1,366,526
Cash and cash equivalents at the beginning of the period	340,311	157,000	157,000
Cash and cash equivalents at the end of the period	374,211	340,311	1,523,526

Group statement of changes in owners equity

	Share capital	Share premium	Foreign currency translation	Non-distributable	Retained Earnings	Total attributable to equity holders of the parent	Minority interests	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 31 December 2009	-	-	1,742,539	10,971,215	4,480,543	17,194,297	5,548,255	22,742,552
Transfer from Non-distributable reserves	113,273	169,853	-	(283,126)	-	-	-	-
Total comprehensive income / Loss for the year	-	-	(1,138,158)	-	(471,456)	(1,609,614)	(117,397)	(1,727,011)
Other comprehensive income	-	-	(1,138,158)	-	(471,456)	(1,138,158)	(117,397)	(588,853)
Balance at 31 December 2009	113,273	169,853	604,381	10,688,089	4,009,087	15,584,683	5,430,858	21,015,541

Directors: F. Mtandah* (Chairman), G. Cheater, M. Mutanda, J. Nderere, B. Nkomo*, Y. Nxumalo, M. Vickery
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